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5 MAY 1986

MEMORANDUM FOR: Mr. William M. George
Director, International Financial and Economic Policy
Office of the Under Secretary of Defense

SUBJECT: NATO Country Economic Summaries [redacted] 25X1

Attached are the NATO Country Economic Summaries that you requested in your memorandum of 28 March (I-09266/86). We hope Secretary Weinberger finds useful our contribution to the briefing material you are pulling together for his attendance at the May NATO ministerial meeting. If you have any further questions or if we can be of further assistance, please call [redacted] Chief, West European Division [redacted] 25X1

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[redacted]

Director
European Analysis

Attachment:
As stated

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EUR M 86-20069

[redacted] 25X1

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BELGIUM-LUXEMBOURG: GENERAL ECONOMIC DATA

BELGIUM

Population (1985): 9.9 Million GDP (Purchaser's Value)/Capita: $8,060

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	66.2	70.3	75.1	79.8
GDP (Constant Prices - % Change by Year)	0.7	0.4	2.2	1.8*
Cost-of-Living Index (1980 = 100)	117	126	134	140

LUXEMBOURG

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Population (1985): 0.37 Million GDP (Purchaser's Value)/Capita: $11,350

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	3.0	3.8	4.0	4.2
GDP (Constant Prices - % Change by Year)	2.1	1.9	2.0	2.0*
Cost-of-Living Index (1980 = 100)	118	128	136	141

Dampened somewhat by efforts to reduce spending, the Belgian economy continues to grow at a slow but steady pace. Increased exports, especially to other EC members, will pace Belgium's growth in 1986 and GDP will expand by about 2 percent -- little changed from the last two years. Investment spending will continue to expand as interest rates fall, while cheaper oil and low inflation will boost private consumption. The sluggish pace of growth will do little to reduce the high unemployment rate --12.8 percent in January. On the brighter side, inflation fell in 1985 to 4.9 percent and will fall even further this year, to about 2.5 percent.

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Prime Minister Martens's fiscal policy continues to emphasize reducing the budget deficit by controlling government spending. His center-right coalition government is currently developing its 1986 and 1987 budgets, which are designed to reduce the deficit from 12 percent of GDP in 1985 to 8 percent by 1987. Brussels is pledged not to increase taxes so any deficit reduction will have to come from lowered government spending.

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Belgium's current account surplus is expected to increase to about $1.3 billion in 1986 from $0.6 billion in 1985. Belgian exports, which constitute about 70 percent of GNP, will grow by about 4.7 percent in 1986 while lower oil prices will hold down the growth of imports.

TRADE AND PAYMENTS (Billion $US, BOP Basis) (Belgium-Luxembourg)	1982	1983	1984	1985*
Exports of Goods and Services	82.1	76.7	76.9	80.5
Imports of Goods and Services	83.5	76.1	75.9	80.0
Balance of Goods and Services	-1.4	0.6	1.0	0.5
Current Account Balance	-2.6	-0.4	0.2	0.6
Long-Term Capital	-3.6	-3.3	-1.9	-1.9
Total Reserves Minus Gold (yearend)	3.9	4.7	4.6	4.8

* Estimated

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CANADA: GENERAL ECONOMIC DATA

Population (1985): 25.4 Million GDP (Purchaser's Value)/Capita: $14,380

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	271.9	294.9	319.4	345.0
GDP (Constant Prices - % Change by Year)	-4.5	3.2	5.0	4.5
Cost-of-Living Index (1980 = 100)	125	132	138	144

25X1

[redacted] Ottawa is currently attempting to deal with the uncertainty surrounding the start of trade negotiations with Washington. The government is fending off opposition attacks that it broke an earlier pledge to exempt some areas from the talks in order to sway US Congressional opinion. Ottawa is also being pressured to aid Western Canadian oil firms and grain farmers, both suffering from depressed commodity prices. [redacted] 25X1

[redacted] The Canadian economy is expected to grow 3 percent this year, down from 4.5 percent in 1985. The slowdown is the result of lagging investment spending due to the collapse in oil prices as well as the impact of higher taxes legislated in previous budgets. Ottawa did manage to bring its projected fiscal 1986 budget deficit under $22 billion -- in part by limiting the real growth of defense spending -- but it disappointed the financial community by relying primarily on tax hikes to meet the goal. The unemployment rate has fallen to 9.6 percent, the lowest level in 4 years, but is expected to rise slightly by year end. Inflation should remain around 4 percent, with higher taxes and a slight currency depreciation offsetting the impact of lower oil prices. 25X1

[redacted] Canada registered a $15 billion trade surplus with the US last year, the only major trading partner with which Canada had a positive trade balance. Falling oil prices are expected to reduce this year's trade surplus by approximately $1 billion, and the current account deficit consequently will be worse than last year's $1.9 billion. The deterioration in the current account balance in 1985 -- which was primarily due to the surprisingly strong growth of the Canadian economy -- combined with falling oil prices to put intense market pressue on the Canadian dollar in early 1986. Ottawa intervened heavily to defend its currency, but it is nonetheless expected to depreciate slightly in the coming months. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	82.4	87.7	101.3	102.3
Imports of Goods and Services	81.4	87.0	100.1	105.0
Balance of Goods and Services	1.0	0.7	1.2	-2.7
Current Account Balance	2.1	1.3	1.8	-1.9
Long-Term Capital	4.7	-0.1	1.3	0
Total Reserves Minus Gold (yearend)	3.0	3.5	2.5	2.5

* Estimated

[redacted] 25X1

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DENMARK: GENERAL ECONOMIC DATA

Population (1985): 5.1 Million

GDP (Purchaser's Value)/Capita: $11,200

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	43.8	48.4	53.0	57.1
GDP (Constant Prices - % Change by Year)	3.0	2.1	3.5	2.7
Cost-of-Living Index (1980 = 100)	123	132	140	146

25X1

Denmark's economy will grow about 3.5 percent this year because of strong domestic demand. An inflation rate of under 2 percent will combine with real wage increases, growing employment, and a decline in household saving to boost consumption. Furthermore, investment spending will increase about 15 percent because of high capacity utilization, strong profitability, lower interest rates, lower labor cost growth, and a favorable business climate.

25X1

The persistent current account deficit -- $2.7 billion in 1985 -- continues to frustrate the center-right government. Strong import growth prompted the government last December, and again in March, to dampen import demand by raising taxes on consumption and energy. The measures will, however, only offset the added purchasing power from lower oil prices. Any improvement in the current account this year thus will depend on the extent to which the lower oil prices give a boost to Danish exports by improving conditions in Denmark's major trading partners and the extent to which interest payments to foreign debtors are reduced by lower interest rates. 25X1

Strong job creation has steadily lowered Denmark's persistently high unemployment rate during the past year, from over 10 percent to a seasonally adjusted 8 percent in the first quarter of this year. This has diminished much of the opposition's pressure on the government to stimulate the economy, which would almost certainly have worsened Denmark's current account significantly.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	22.2	22.5	22.4	25.1
Imports of Goods and Services	24.3	23.5	24.1	27.9
Balance of Goods and Services	-2.1	-1.0	-1.7	-2.8
Current Account Balance	-2.3	-1.2	-1.6	-2.8
Long-Term Capital	2.4	2.5	1.9	4.5
Total Reserves Minus Gold (yearend)	2.3	3.6	3.0	5.4

* Estimated

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FRANCE: GENERAL ECONOMIC DATA

Population (1985): 55.1 Million   GDP (Purchaser's Value)/Capita: $9,130

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	408.2	450.3	490.0	503.1
GDP (Constant Prices - % Change by Year)	1.8	0.7	1.6	1.3
Cost-of-Living Index (1980 = 100)	127	139	149	158

25X1

[redacted] The austerity program adopted by the Socialist government in 1983 continues to pay off in reducing inflation and improving the balance of payments. Recovering from a $12 billion deficit in 1982, the current account probably registered a small surplus last year, and is likely to improve further in 1986. On a December-to-December basis, inflation fell to 4.7 percent in 1985 and may drop below 2.5 percent this year. More importantly, the inflation differential vis-a-vis France's major trading partners has been reduced to below 2 percentage points -- although further progress will be slow. Real GDP grew 1.3 percent last year, slightly less than the increase recorded in 1984, while unemployment continues to hover near 10.5 percent. Thanks largely to the decline in oil prices, economic growth should pick up further this year, exceeding 2 percent for the first time since 1979.

25X1

[redacted] In mid-March, France returned a conservative government to power. Prime Minister Chirac has promised to move further toward market-oriented policies, and he has already announced the lifting of some price and foreign exchange controls as well as measures intended to encourage more flexibility in the labor market. In addition, the government has unveiled a program to return much of France's nationalized industry to the private sector over the next six years. The 1987 budget proposal, which is due in the fall, is likely to provide tax cuts, coupled with public spending reductions aimed at reducing the government deficit.

25X1

[redacted] While Paris is clearly moving in the right direction, the structural economic problems France must address are deep-seated, and positive results will continue to be slow to materialize. The French political scene, moreover, is likely to remain confused for at least the short run because the conservatives must contend with Socialist President Mitterrand, whose term runs until 1988. This power sharing between a parliament and president from opposing political parties is unprecedented under the Fifth Republic, and much of the domestic political debate will center on economic issues. The actual course of policy may depend on how far Mitterrand can stretch his powers to slow the right's program.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	153.8	145.4	148.1	152.6
Imports of Goods and Services	161.2	146.5	145.2	148.4
Balance of Goods and Services	-7.4	-1.1	-2.9	4.2
Current Account Balance	-12.1	-4.9	0.0	0.3
Long-Term Capital	-1.2	9.3	5.2	1.5
Total Reserves Minus Gold (yearend)	16.5	19.9	20.9	26.6

* Estimated

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GREECE: GENERAL ECONOMIC DATA

Population (1985): 10.0 Million GDP (Purchaser's Value)/Capita: $3,290

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	18.4	22.2	27.3	32.9*
GDP (Constant Prices - % Change by Year)	-0.1	-0.0	2.6	1.7*
Cost-of-Living Index (1980 = 100)	151	181	215	256

25X1

[redacted] Greece's current account deficit soared by 50 percent last year to $3.3 billion, or 10 percent of GDP. The sharp deterioration was due to a nearly 8-percent rise in imports, a 2.5-percent decline in exports, and a continued decline in invisibles receipts -- particularly shipping and emigrant remittances. On the domestic side, inflation was around 19 percent, unemployment reached 8.3 percent, and GDP growth slowed to an estimated 1.7 percent, down from 2.6 percent in 1984. The public sector borrowing requirement rose sharply, reaching 17.8 percent of GDP, up from 15.5 percent in 1984.

[redacted] Despite continued labor protests, Prime Minister Papandreou is sticking to the austerity program he introduced last October to combat the rapidly deteriorating balance-of-payments situation. The measures included a 15-percent devaluation of the drachma, import restrictions, and changes in the wage indexation formula that will reduce workers' real incomes by an estimated 7 percent. Papandreou also imposed a one-year tax surcharge on the self-employed and introduced new enforcement measures to combat widespread tax evasion. The austerity program paved the way for a $1.5 billion balance-of-payments loan from the EC, about half of which has been disbursed. The second portion will be released early next year if Athens is on track towards meeting its economic targets, which include reducing inflation to 15 percent by the end of 1986 and 10 percent by mid-1987, and cutting the net public sector borrowing requirement almost in half by 1987. 25X1

[redacted] The austerity program -- and the oil price decline -- should reduce the current account deficit to about $2.4 billion in 1986. Inflation is likely to average about 23 percent because of the devaluation and price increases for public sector goods and services; it should decline by year-end but the 15-percent target looks doubtful. Economic growth is likely to be slightly negative and unemployment may climb to 9 percent. Over the longer run, the measures are insufficient to correct the structural problems of the economy. To revive private investment and improve Greece's competitiveness, Papandreou will need to liberalize the heavily state-dominated economy. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985
Exports of Goods and Services	4.2	4.1	4.4	4.3
Imports of Goods and Services	10.1	9.5	9.8	10.5
Balance of Goods and Services	-5.9	-5.4	-5.4	-6.2
Current Account Balance	-1.9	-1.9	-2.2	-3.3
Long-Term Capital	1.2	2.1	1.8	NA
Total Reserves Minus Gold (yearend)	0.9	0.9	1.0	0.9

* Estimated

[redacted] 25X1

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ICELAND: GENERAL ECONOMIC DATA

Population (1985): 0.24 million GDP (Purchaser's Value)/Capita: $10,830

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	0.9	1.5	2.0	2.6
GDP (Constant Prices - % Change by Year)	-0.1	-5.0	3.1	2.5*
Cost-of-Living Index (1980 = 100)	225	418	547	723

25X1

Economic activity increased in 1985 for the second consecutive year. This growth resulted from one of the best years ever for the fishing industry -- which accounts for 20 percent of GDP and about three-fourths of export earnings. Fixed investment spending growth was virtually flat, however, because of declines in residential construction and public sector projects, and similar results are likely in 1986.

25X1

Iceland's main short-term concern is controlling inflation, which, although down from the 80 percent rate of 1983, has stayed at about 30 percent for the past two years. A consensus among policymakers, business, and labor to implement a broad attack on inflation resulted in a wage settlement in February that has pushed the rate down to 15 percent. The agreement, however, will turn a small budget surplus into a $50 million deficit due to tariff cuts and increased subsidies. Meanwhile, the large current account deficit continues, burdened by interest payments on the growing foreign debt -- now 60 percent of GDP.

25X1

Over the longer term, Iceland will continue to be plagued by the small size of the economy and its over-dependence on the fishing industry. Domestic output and exports both remain extremely vulnerable to variations in the fish catch and world fish prices. Iceland's economy will remain fragile for the foreseeable future unless it expands its efforts to diversify the economy, which will require substantial increases in foreign direct investment.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	1.05	1.10	1.11	1.16
Imports of Goods and Services	1.31	1.15	1.24	1.29
Balance of Goods and Services	-0.26	-0.05	-0.13	-0.13
Current Account Balance	-0.26	-0.06	-0.13	-0.13
Long-Term Capital	0.21	0.09	0.11	0.10
Total Reserves Minus Gold (yearend)	0.15	0.15	0.13	0.21

* Estimated

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ITALY: GENERAL ECONOMIC DATA

Population (1985): 57.1 Million   GDP (Purchaser's Value)/Capita: $6,320

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	246.4	323.3	361.0	387.1
GDP (Constant Prices - % Change by Year)	-0.5	-0.4	2.8	2.3
Cost-of-Living Index (1980 = 100)	137	157	174	190

25X1

External forces -- falling oil prices, the declining value of the dollar vis-a-vis the lira, and lower interest rates in the United States, West Germany, and Japan -- will be the key factors behind Italian real GDP growth of 2.3 percent in 1986. A healthy private sector also will contribute to the moderate expansion of the economy. Investment probably will remain strong despite high domestic interest rates as record profits enable companies to internally finance modernization projects. Unemployment, however, is likely to rise above the 1985 level of 10.6 percent; not enough new jobs will be created to accommodate new entrants to the labor force plus the shedding of labor in industry.

25X1

Falling oil prices will help slow inflation by nearly two percentage points to 6.5 percent in 1986, despite the government's decision to discourage increased fuel consumption by raising gasoline taxes. Rome anticipates its energy import bill will be cut by a third this year; this should trigger a $4.5 billion improvement in Italy's trade deficit and move the current account into a small surplus.

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The one dark cloud on the economic horizon is the public sector deficit -- which is likely to exceed 16 percent of GDP this year. Heated opposition to proposed spending cuts delayed passage of the 1986 budget by two months, and the final document contains virtually no savings. Covering the huge public sector borrowing requirement is a significant drain on Italy's financial resources and probably will lessen Rome's ability to bring domestic interest rates down in line with those in other industrialized nations.

Trade and Payments (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	98.9	97.4	99.2	101.4
Imports of Goods and Services	105.4	98.1	103.2	109.0
Balance of Goods and Services	-6.5	-0.7	-4.0	-7.6
Current Account Balance	-5.7	0.6	-3.0	-6.6
Long-Term Capital	5.1	0.5	0.6	2.8
Total Reserves Minus Gold (yearend)	14.1	19.8	20.8	20.4

* Estimated

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NETHERLANDS: GENERAL ECONOMIC DATA

Population (1985): 14.5 Million GDP (Purchaser's Value)/Capita: $8,570

Total Output (Billion $US-1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	111.1	113.9	118.9	124.3
GDP (Constant Prices - % Change by Year)	-1.7	1.3	1.7	2.0
Cost-of-Living Index (1980 = 100)	113	116	120	123

The Dutch economy is expected to continue its slow but steady growth in 1986, fueled by rising business investment, consumer expenditure and export earnings. Job creation has not exceeded increases in the labor force, however, and the unemployment rate continues to hover around 14 percent. The Dutch are also just beginning to come to grips with a generous welfare system that reduces the incentive to find work. Modest wage settlements and small rises in import prices helped hold inflation to only 2.5 percent in 1985, and should permit a further fall to 1.0 - 1.5 percent this year. 25X1

The Hague's 1986 budget relaxes -- but does not abandon -- the austerity program put in place in 1982 to bring down the public sector deficit. Public expenditures are being reduced by $2.5 billion by trimming welfare spending, public-sector wages, and allocations to various ministries. These cuts may be enough to hold the deficit to 6 percent of GDP, the same as in 1985. Additional spending reductions are being postponed until after the national elections scheduled for May. 25X1

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The Netherlands should continue to enjoy large current account and trade surpluses in 1986. Although imports may grow faster than exports in volume terms, the trade surplus should widen marginally due to favorable movements in the terms of trade on both the energy and non-energy accounts.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	88.0	83.4	83.9	87.0
Imports of Goods and Services	83.0	78.6	78.0	81.4
Balance of Goods and Services	5.0	4.8	5.9	5.6
Current Account Balance	3.7	3.9	4.9	4.8
Long-Term Capital	-3.2	-2.1	-3.0	-3.2
Total Reserves Minus Gold (yearend)	10.1	10.2	9.2	10.8

* Estimated

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ILLEGIB

NORWAY: GENERAL ECONOMIC DATA

Population (1985): 4.1 Million GDP (Purchaser's Value)/Capita: $13,980

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	42.1	46.7	51.9	57.3
GDP (Constant Prices - % Change by Year)	0.3	3.8	3.8	3.0
Cost-of-Living Index (1980 = 100)	127	137	146	154

25X1

Despite the sharp fall in oil prices this year, offshore development work already underway will boost Norway's oil sector investment in both 1986 and 1987. This work is expected to contribute to a 30-percent rise in manufacturing investment this year, but because of inefficiencies in some sectors of the economy, this boom is not likely to translate into GDP growth much greater than 2 percent. The major short-run impact of lower oil prices has been to reduce the share of taxes collected from oil production from 17 percent to about 10 percent. A government effort to raise additional taxes led to a collapse of the center-right coalition in late April. The future course of economic policy is uncertain because the new Labor Party government is likely to be short-lived. 25X1

Despite lower oil prices, inflation could remain at about last year's 5.5 percent rate because, despite the sharp falloff in revenues, large government spending increases are likely even if the Labor government does not last. The central bank in turn will probably come under strong pressure to reverse the slowdown in money supply growth it undertook in January.

The $3.1 billion current account surplus of 1985 may turn into a $4 billion deficit because of the steep decline in oil exports -- compounded by an early spring strike that halted oil production for nearly three weeks. Current account problems are likely to persist under lower oil prices unless Norway undertakes long-term investments to make its mainland industries more competitive and to boost non-oil exports. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985
Exports of Goods and Services	27.3	26.6	28.0	27.7
Imports of Goods and Services	26.0	24.0	24.2	22.9
Balance of Goods and Services	1.3	2.8	3.8	4.8
Current Account Balance	0.7	2.0	3.2	3.1
Long-Term Capital	1.2	-1.0	-0.1	1.0
Total Reserves Minus Gold (yearend)	6.9	6.6	9.4	13.9

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PORTUGAL: GENERAL ECONOMIC DATA

Population (1985): 10.0 Million GDP (Purchaser's Value)/Capita: $2,030

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	10.9	13.4	16.6	20.3*
GDP (Constant Prices - % Change by Year)	3.8	-0.4	-1.5	2.5*
Cost-of-Living Index (1980 = 100)	147	184	238	284

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The Portuguese economy last year posted its most favorable overall results since the mid-1970s. Buoyed by an 8.5 percent increase in real exports, real GDP grew 2.5 percent; total domestic demand edged up slightly, due to the 3-percent increase in public consumption. Private consumption grew only marginally, however, due to sluggish real wages, while real investment declined 5 percent. Inflation continued its downward trend, falling to about 19 percent.

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Lisbon made little progress in reducing the budget deficit, which reached 14 percent of GDP in 1985; total government financing requirements meanwhile rose to 18 percent of GDP. In late 1985, the new Cavaco Silva government relaxed the Soares austerity program by boosting spending and cutting some taxes. It is also trying to reverse the downward trend in private investment and would like to cut the cost of government subsidies by returning some public enterprises to the private sector. The commitment to reprivatization is welcomed by the business community although it will probably lead to layoffs and factory closures. Cavaco Silva is also likely to have trouble removing the consitutional barriers to privatization because of opposition from the Socialist and Communist parties.

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Healthy export growth in 1985 contributed to the first surplus on the current account since 1973. Portugal will likely see a surge in imports in 1986, however, because of the dismantling of tariff barriers and the shift to more expensive EC suppliers of agricultural imports; Lisbon's new expansionary policies will also spur imports. Consequently, although the decline in oil prices will have a favorable impact, the current account deficit is nevertheless likely to reach $500 million.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	5.9	6.9	7.1	7.6
Imports of Goods and Services	11.8	10.1	9.8	8.4
Balance of Goods and Services	-5.9	-3.2	-2.7	-0.8
Current Account Balance	-3.3	-1.0	-0.5	0.1
Long-Term Capital	2.2	1.2	1.2	0.8
Total Reserves Minus Gold (yearend)	0.5	0.4	0.5	1.4

* Estimated

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SPAIN: GENERAL ECONOMIC DATA

Population (1985): 38.6 Million GDP (Purchaser's Value)/Capita: $4,310

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	116.9	140.0	152.5	166.3*
GDP (Constant Prices - % Change by Year)	1.0	2.5	2.3	1.7*
Cost-of-Living Index (1980 = 100)	131	147	164	178

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Although real GDP growth averaged only 1.7 percent for the year, it accelerated to a 4-percent rate in the fourth quarter. The late improvement was helped by increased private consumption resulting from a personal tax cut, and by heavy consumer buying in anticipation of the introduction of the new value-added tax on 1 January 1986. Average annual inflation fell to 8.5 percent because of a weaker dollar, lower oil prices, and slightly slower growth in labor costs. Unemployment edged up to 22 percent, but for the first time since the mid-1970s the total level of employment increased.

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Exports made only a minor contribution to growth in 1985, as Spain suffered from a poor harvest, weak export markets and a slight deterioration in internatioal competitiveness. Real exports grew 2.3 percent while imports increased about 3 percent. A surplus on the invisibles balance -- primarily because of higher revenues from tourism -- contributed to a $2.5 billion current account surplus.

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Entry into the EC is not likely to bring any immediate benefits in 1986. Agricultural exports will not rise greatly since high EC tariffs will only gradually diminish over the 7- to 10-year transition period. Industrial exports are also unlikely to expand significantly because Spanish firms are plagued with unit labor costs that are among the highest in Europe. As Spain's industrial tariff barriers are dismantled and the economy opened to EC competition, some firms will face bankruptcy. Madrid's efforts to streamline traditional industries and develop the high-tech sector will eventually increase competitiveness, but probably at the cost of higher unemployment in the near term. With general elections scheduled for June, the Socialist government may have to back off somewhat on its push for industrial modernization.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	34.8	32.7	37.1	41.0
Imports of Goods and Services	40.6	36.6	35.9	39.9
Balance of Goods and Services	-5.8	-3.9	1.2	1.1
Current Account Balance	-4.3	-2.5	2.3	2.5
Long-Term Capital	1.8	3.1	3.3	3.0
Total Reserves Minus Gold (yearend)	7.7	7.4	12.0	11.2

* Estimated

25X1

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TURKEY: GENERAL ECONOMIC DATA

Population (1985): 51.3 Million   GDP (Purchaser's Value)/Capita: $1,020

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	16.4	22.0	34.9	52.5
GDP (Constant Prices - % Change by Year)	4.3	3.8	5.9	4.9
Cost-of-Living Index (1980 = 100)	179	237	352	507

Prime Minister Ozal continues to promote his austerity and free-market economic policies. He successfully implemented a value-added tax last year -- which brought in $1.9 billion, 40 percent above the target -- in addition to privatizing a few state assets, and introducing new rules for foreign investment to attract sorely needed foreign capital. 25X1

Ozal's economic program continues to show results on the balance-of-payments side. A substantial rise in tourism revenues and a moderate rise in worker remittances and exports more than offset an increase in imports, helping to reduce the current account deficit to an estimated $1 billion in 1985. Ankara was also able to meet $3.7 billion in debt service payments last year -- sharply higher than in 1984 due to the expiration of the grace period on rescheduled debt. These payments absorbed 28 percent of foreign exchange earnings, however, and the foreign exchange crunch led Ankara to at least temporarily retreat from plans to make the lira fully convertible. On the domestic side, GDP growth slowed to 4.9 percent, down from nearly 6 percent in 1984, and unemployment probably edged above 20 percent. Inflation fell from 53 percent to 44 percent -- still substantially above Ankara's 25-percent target. On the positive side, revenues from the value-added tax helped to reduce the public sector deficit from 5 percent of GDP to an estimated 2.6 percent. 25X1

The outlook for 1986 is mixed. Ankara is unlikely to meet its 25-percent target for inflation, but new Central Bank rules aimed at reducing the growth of the money supply probably will lower inflation to the 35-percent range. GDP growth will likely be around 5 percent -- probably the highest rate in NATO but still not enough to prevent a slight rise in unemployment. On the external side, lower oil prices and an 8-10 percent rise in the dollar value of exports should reduce the current account deficit to about $800-900 million. Turkey will continue to need aid from its Western allies, as well as borrowing in the private financial markets, if it is to meet its debt service obligations. These will remain in $3.5-4.0 billion range through the remainder of the 1980s. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	5.7	5.9	7.4	8.0
Imports of Goods and Services	8.4	8.9	10.3	11.3
Balance of Goods and Services**	-2.7	-3.0	-2.9	-3.0
Current Account Balance	-0.9	-1.8	-1.4	-1.0
Long-Term Capital	0.2	-0.3	0.2	NA
Total Reserves Minus Gold (yearend)	0.9	1.3	1.3	1.2

* Estimated
** 1982-1984 figures exclude debt relief

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UNITED KINGDOM: GENERAL ECONOMIC DATA

Population (1985): 56.4 Million   GDP (Purchaser's Value)/Capita: $8,000

Total Output (Billion $US-1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices	357.8	389.0	412.4	451.1
GDP (Constant Prices - % Change by Year)	1.9	3.3	2.6	3.3
Cost-of-Living Index (1980 = 100)	122	127	133	141

The United Kingdom is now in its fifth year of economic expansion with GDP expected to grow between 2.5 and 3 percent in 1986. The main impetus for growth will shift from exports to consumer expenditure as inflation falls below 4 percent and real earnings rise at a healthy pace. Private investment and exports will continue to contribute to growth and Britain will be a net beneficiary from lower world oil prices. Despite the outlook for further economic recovery, unemployment remains a critical problem for the Thatcher government: the jobless rate stood at 13.2 percent in March and shows no sign of coming down in the foreseeable future. 25X1

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The March budget reaffirmed London's commitment to the relatively tight fiscal and monetary policies pursued since Thatcher came to power in 1979. Strong personal and corporate tax receipts and revenues from the sale of public assets more than compensated for declining North Sea oil receipts, allowing the Treasury to undershoot its borrowing target for fiscal 1985 by over $1 billion; the public sector borrowing requirement (PSBR) totalled $8.3 billion or 1.6 percent of GDP. General government expenditure is projected to remain constant in real terms for the next three years, with the PSBR remaining below 2 percent of GDP. Monetary authorities continue to emphasize control of inflation as the most important goal of economic policy. To this end, British interest rates remain high by international standards, despite their potential dampening impact on growth.

25X1

The current account balance should remain in substantial surplus in 1986, despite significantly lower net oil earnings, as non-oil exports and invisibles continue their strong growth. The trade balance may deteriorate somewhat, however, as growing consumer spending boosts the demand for imported goods.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	204.4	185.6	190.3	201.6
Imports of Goods and Services	194.0	177.7	185.8	197.2
Balance of Goods and Services	10.4	7.9	4.5	4.4
Current Account Balance	6.9	4.7	1.4	4.6
Long-Term Capital	-15.5	-13.3	-19.0	-16.0
Total Reserves Minus Gold (yearend)	12.4	11.3	9.4	12.9

* Estimated

25X1

[redacted] 25X1

WEST GERMANY: GENERAL ECONOMIC DATA

Population (1985): 61.1 Million   GDP (Purchaser's Value)/Capita: $10,160

Total Output (Billion $US - 1985 Exch Rate)	1982	1983	1984	1985
GDP (Purchaser's Value - Current Prices)	543.5	568.3	593.7	621.0
GDP (Constant Prices - % Change by Year)	-1.0	1.5	2.7	2.4*
Cost-of-Living Index (1980 = 100)	112	116	118	121

25X1

[redacted] West German economic growth should spurt to 4 percent in 1986, up from 2.4 percent last year. Private consumption will be boosted by the first stage of the 1986/88 personal income tax cuts (about $5 billion), and by real wage increases -- as West German unions have, at least temporarily, dropped their goal of shorter working hours in favor of pay hikes. In addition, we agree with West German estimates that the savings from cheaper oil -- which will be largely passed on to the consumers -- will boost GDP growth about one-half percentage point in 1986. Despite these favorable factors, the economy should begin to slow by mid-year, as deutschemark appreciation cuts real export demand and reduced export earnings cause West German firms to reassess investment plans.

[redacted] Unemployment, which soared during the 1981/82 recession and has remained high, will not improve very much. We expect the number of unemployed to decline by only about 60,000 this year, yielding an average 9.0 percent unemployment rate -- just slightly below the level in late 1985. On the brighter side, currency appreciation will help lower the inflation rate this year to about 0.8 percent, a postwar low. We also estimate that cheaper oil will add about $5 to $7 billion to Bonn's 1986 current account surplus, which should reach a record $29 billion. 25X1

[redacted] West German fiscal and monetary policy will remain directed towards reducing the government deficit and eradicating inflation. The Bundesbank plans to keep monetary growth in 1986 in the 3.5 - 5.5 percent range and the West Germans are resisting international pressures for additional cuts in central bank lending rates. The Finance Ministry has ruled out advancing the 1988 tax cuts, and major tax reform will not be debated until after next January's federal elections. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	218.5	210.1	210.3	237.5
Imports of Goods and Services	203.7	195.4	193.2	207.2
Balance of Goods and Services	14.8	14.7	17.1	30.3
Current Account Balance	3.4	4.1	6.3	14.8
Long-Term Capital	-6.1	-3.2	-5.1	-1.3
Total Reserves Minus Gold (yearend)	44.8	42.7	40.1	44.4

* Estimated

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